Press Release

Nupur Finvest Private Ltd

August 20, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned*
1.	Fund Based Facilities – Cash Credit	100.00 (including proposed cash credit of Rs.25 crore)	IVR A (SO) / Positive Outlook (IVR Single A [Structured Obligation] with Positive Outlook)
2.	Fund Based Facilities – Term Loans	150.00 (including proposed term loans of Rs.78.61crore)	IVR A (SO) / Positive Outlook (IVR Single A [Structured Obligation] with Positive Outlook)
Total		250.00	

**Based on an unconditional and irrevocable guarantee given by Paisalo Digital Limited*

Details of Facilities are in Annexure 1

Detailed Rationale

The rating derives strength from unconditional and irrevocable guarantee from the parent, experienced promoters and management, comfortable capital structure and moderate asset quality. However, the rating also takes in to consideration the fall in profitability, high concentration risk, moderate liquidity position and higher reliance on bank funding. Higher than expected deterioration in asset quality, sharp fall in profitability, significant change in the liquidity position and any change in the credit profile of PDL are the key rating sensitivities.

List of key rating drivers with detailed description

Key Rating Strengths

Unconditional and irrevocable guarantee from parent

NFPL is a wholly owned subsidiary of Paisalo Digital Ltd (PDL). PDL has extended unconditional and irrevocable corporate guarantee for the bank facilities of NFPL. The guarantee covers the timely repayment of the principal and interest against all the facilities of NFPL.

Experienced promoters and management

Mr. Sunil Agarwal, the Managing Director of the company, possesses rich experience of over two decades in the SME and retail financing business. He is supported by Mr. Harish Singh, the Executive Director of the company, and a team of qualified & experienced professionals.

Mr. Harish Singh is a Chartered Accountant and MBA with over two decades of experience in the financial sector.

Comfortable capital structure

The Company has maintained adequate capital adequacy ratio (CAR) over the years, which is above the RBI's stipulated norm of 15%. As on March 31, 2019, CAR stood at 20.78% with Tier I CAR being 20.38% [March 31, 2018: 20.00% with Tier I CAR being 19.60%]. This provides some leeway to the company to raise funds to support business growth, going forward. The overall gearing ratio was moderate at 4.04x as on March 31, 2019.

Moderate asset quality

NFPL primarily lends business loans to SME/corporates which are relatively more susceptible to economic slowdown. The company is vulnerable to higher credit risk, given the moderate quality of its portfolio. However, the credit risk under the business loan segment is mitigated to some extent because of collateral back-up in the form of residential/commercial property. Around 28% of the loan book of NFPL is unsecured in nature. However, such loans are primarily extended to dairy farmers for income generating activities providing some comfort.

As per RBI requirement, NBFCs were required to revise NPA recognition norm from 120 days to 90 days from March 31, 2018. However, NFPL has a policy to write off loans that have become NPAs. The write-offs for FY19 stood at 1.27% as against 2.37% in FY18.

Key Rating Weaknesses

Fall in profitability

The loan portfolio of NFPL consists of loans extended to SME/corporates and income generation loans to individuals which yield higher returns. Though, it helped NFPL to post a growth of 41% in its interest income for FY19, the Net Interest Margin (NIM) fell to 6.70% in FY19 from 9.59% in FY18, mainly due to higher overheads and interest outgo. PAT margin for FY19 was low at 1.56% with Return on Total Assets of 0.26% (10.70% and 1.72%, respectively in FY18).

High concentration risk

Majority of the loan book comprises business loans (72%) which typically have higher ticket sizes. Top 20 exposures accounted for around 40% of the total advances and around 193% of the net worth as on March 31, 2019. The company's operations are also constrained by geographical concentration risk which is common among small and medium NBFCs. Around 98% of the portfolio is concentrated between Agra (76%) and Delhi (22%). However, the company is taking initiatives to enhance its retail base and to gradually spread its reach into other geographies.

Moderate liquidity position

NFPL has a moderate liquidity position based on its balanced asset–liability maturity profile. While the loan book has an average tenure of 24 months, the company's borrowings are in the form of cash credits and term loans from various banks and FIs that are long-term in nature. NFPL's average utilisation of cash credit facilities during twelve months ended March 2019 was high at around 97%. However, given the adequate capital structure, NFPL has enough headroom to raise additional debt to fund its business growth.

Higher reliance on bank funding

NFPL's borrowing requirements are primarily skewed towards bank borrowings (Cash Credit and Term loans), which account for about 71% of total borrowings as on June 30, 2019. Given the current liquidity crunch in the market, NFPL has not been able to raise additional funding through borrowings in FY19.

Analytical Approach & Applicable Criteria

Consolidated

Rating Methodology for Financial Institutions/NBFCs

Financial Ratios & Interpretation (Financial Sector)

Rating Methodology for Structure Debt Transaction (Non-securitisation transaction)

Liquidity

Liquidity is marked by adequate accruals with sufficient cushion for repayment obligations and modest cash and cash equivalents to the tune of Rs.4.5 crore as on March 31, 2019. With a gearing of 4.04 times as of March 31, 2019, the issuer has moderate gearing headroom, to raise additional debt for its business growth. The company has a balanced ALM profile.

There are no negative mismatches in any of the time buckets. However, the average utilisation of its working capital limits was around 97% for the past 12 months.

About the Company

Nupur Finvest Private Ltd (NFPL) is a non - deposit accepting non-banking finance company registered with the Reserve Bank of India. NFPL started its business with unsecured personal lending and moved to microfinance operations in January 2007. Paisalo Digital Ltd (PDL, rated IVR A (Positive)) acquired 100% stake in March 2011 with the purpose of hiving off microfinance business into a separate company. However, due to the revision in the lending norms for the microfinance institutions sector, NFPL discontinued its microfinance operations in FY 2013-14. The company's lending business is primarily focused on 2 major segments i.e. Small Finance Division and SME/Trade Loan Division.

Being a 100% subsidiary of Paisalo Digital Ltd, the management team of NFPL is led by its Managing Director Mr. Sunil Agarwal who has rich & versatile experience of over 27 years in financial market specially in lending to Small and Corporate customers. NFPL has 6 branches of which Agra and Delhi contribute 98% of the total portfolio as on March 31, 2019.

Financials (Standalone) **(Rs. crore)**

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	31.1	43.9
Finance Cost	12.6	26.0
PAT	3.3	0.7
Total Debt	177.0	210.5
Tangible Net Worth	52.1	52.1
Ratios		
PAT Margin (%)	10.70	1.56
Overall Gearing Ratio (x)	3.40	4.04

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Fund Based Facilities – Cash Credit	Long Term	100.00 (including proposed cash credit of Rs.25 crore)	IVR A (SO) / Positive Outlook	--	--	--

2.	Fund Based Facilities – Term Loans	Long Term	150.00 (including proposed term loans of Rs.78.61crore)	IVR A (SO) / Positive Outlook	--	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	--	--	--	100.00 (including proposed cash credit of Rs.25 crore)	IVR A (SO) / Positive Outlook (IVR Single A [Structured Obligation] with Positive Outlook)
Term Loan	--	--	Varied	150.00 (including proposed term loans of Rs.78.61crore)	IVR A (SO) / Positive Outlook (IVR Single A [Structured Obligation] with Positive Outlook)